645 [701] before the war a career officer in the Russian Red Army of the USSR and a Russian citizen. Succeeded Farkas in 1953.

BEBRITS, LAJOS. Minister of Post and Transportation. "1. Was taken to Russia as prisoner in the first war and was trained there. He went over to the United States in the twenties, where he became chief editor of the "Hungarian Future", participated in the underground movements and organized the Hungarian Communist movement. When Sándor Magyar and György Endresz, pilots of the aircraft "Justice for Hungary", arrived to New York after their ocean flight - Lajos Bebrits lead a group of Hungarian Communists to the port to demonstrate against the pilots of "Justice for Hungary", so that he was arrested by the police and sentenced in Newark under the charge of rioting. He was actively engaged in pioneer activities among the Hungarians of Miami and founded a Hungarian club. After the termination of World War II Bebrics returned to Hungary. 2. Neither Moscow-trained Communist, nor Nazi. 3. Not a Soviet citizen. 4. Has a political black-book. 5. Educated journalist, speaks English, Russian and Hungarian."

665 647 BENKE, VALERIA. Chairman of the Hungarian Office for Radio Broadcasts. One of the leaders of the post-war Communist womens' front organization, the NNDSZ, later General Secretary of the Peace Council.

In 1953 she was elected MP and elected also to the Central Committee of the Party. 665 647

BEREI, ANDOR. Chairman of the National Office of Planning. Born in 1900. Economist. Formerly General Secretary of the same agency.

BOGNAR, JÓZSEF. Minister of Interior Trade. Born in 1917. 645 "1. Of middle-class origin, Roman-Catholic, professor with university degree. Member of the Smallholders' Party but in the services of the Communists. 2. Had Communist leanings. 3. Not a Soviet citizen. 4. Has no black-book. 5. Became Minister of Propaganda in 1946 and was involved in the so-called conspiracy. He was not arrested and taken to Stalin Street 60 only under the condition that he must work for the Communists as under-cover agent in the Smallholders' Party. Minister of Interior Trade since 1948." He was Mayor of Budapest in 1947.

BOLDOCZKY, JÁNOS. Minister of Foreign Affairs. Peasant background, formerly in the diplomatic service.

CSERGŐ, JÁNOS. Minister of Smelting and Machine Industry. Information lacking.

GÖTTNER, Sándor. Minister of Mining. "1. Participated in

2:Paloczy-Horvath H-3 (no date)1944 EC1 Hungary EC1

665 They defended themselves by saying:

642 1. They concluded this agreement with Bethlen's Government. That government might go, and then labour would be
423 free to act.

2. This was a tactical step to save the existence of the Party and the Trade Unions.

3. Even during the period of voluntary passivity, industrial labour could go on organising and educating its own masses.

4. The land-workers were a backward, uneducated mass.

We do not want to pass judgment. We know that the peasants are a conservative lot. We know that the landless land-workers are often called peasants, thereby confusing the industrial workers, who dislike peasants. But the fact remains that the Bethlen–Peyer agreement was one of the most important pillars supporting the camouflaged dictatorship of Hungarian feudalism.

423 Our lords had other tricks up their sleeve. They even pretended
565 to carry out some land reform. This trick also worked. Horthy created a new Hungarian knighthood, the so-called "Order of Heroes". Officially all those Hungarians who had fought exceedingly well in the war of 1914–18 could become "heroes". In fact, all the White Terrorist boys were knighted, all the members of Horthy's White Army, all the friends and servants of our lords. About fifty thousand other ranks received some land which had been taken away from "traitors" like Count Károlyi and his friends. In this way Bethlen could say to the Allies that he was carrying out land reform, and he also had a trustworthy defence guard for his régime.

The gentry were an important pillar of the Horthy–Bethlen rule. *The gentry are usually landowners in theory but not in practice.*
565 They wear a signet ring with the family emblem on it, and have the manners and customs of a country squire, a lot of dissatisfaction, an empty pocket and a great craving for a rich, elegant life. They are—or pretend to be—members of a noble landowning family which lost its estates because of "them". "They" vary quite a lot. "They" are the Jews, "they" are the progressives, "they" are those red skunks who brought in a law forcing the nobility to pay taxes.

641 We have already mentioned that Hungary had a decentralised
● 641 administration and that the counties—"the noble counties"—had à lot of power. The gentry—the gentlemen—were the Civil Servants of the State or county. Trade or industry or any profession was naturally considered below the dignity of the gentry.

2:Paloczy-Horvath H-3 (no date)1944 EC1 Hungary EC1

Well, Count Bethlen "consolidated" his rule chiefly with their help. He forced the country to give armchair jobs to most of the gentry. You want proof? *Pre-1914 Hungary had less Civil Servants than post-Trianon Hungary.* Hungary's territory was reduced by 72%, her population by 64%, but instead of reducing the Civil Service, Count Bethlen *increased* it by at least two-thirds.

We paid the taxes; why should he care? The landowners were protected. The great landowners paid 7.62 *pengoes* per acre, the smallholders 12 *pengoes* per acre. The workers in the factories and on the land paid, proportionately to their income, 22% more tax than the rich.

So, as you see, the Horthy–Bethlen régime not only abolished all the reforms, but quite effectively ensured that we should not get any help from inside or from abroad.

We were beaten, and our lords were safe. They set to work to wreck our future too. They called Hungary a "kingless kingdom". You can make funny jokes about it, but this phrase, too, was a trick of our lords. By calling Hungary a kingdom, they meant that the peace treaties were not valid. Only the king, with St. Stephen's crown on his head, could make a treaty. This meant that Hungary would have to get back her thousand-year-old frontiers.

CHAPTER XII

LET US tell you now what we think about this problem of St. Stephen's frontiers. Listen, please, because you will never achieve peace in our part of the world unless you see clearly the rôle of our lords.

Your rich people talk about "the white man's burden" in Africa and India. Well, our lords could talk in the same way about the "white count's burden". It is very simple. The white count's burden is to rule the Danube basin; to rule the despised workers in Hungary, Rumania, Croatia; to rule a lot of Slavs and Germans. Why should he rule them? Because the "white counts" are infinitely better than anybody else in the Danube basin.

We think that we shall only have peace if we all accept the fact that we are neither better nor worse than our neighbours, and that we must live side by side with them on the *basis of equality of opportunity, right and obligation.* Well, our lords will never acknowledge that a Rumanian or Czech lord is just as good as they are.

Our lords are a proud lot. They like to be important. They think and talk all the time about the Hungary of a thousand

3:Kemeny G-5 (1945-48)1954 EC1 Hungary EC1

to merge the two drafts without great difficulties as the Communist Plan was also adapted in its structure to the system of mixed economy.

The Socialist Plan included gross capital outlay of roughly 6,700 million forint. Replacements being some 1,600 million, the net capital outlay would be 5,100 million. The Government Plan, following rather the Communist Plan, included a net capital outlay of 6,585 million, but did not reckon in its estimates with the burden loaded on the national income by the necessity of accumulating stocks. The Socialist Plan laid less emphasis on heavy industry and contemplated a more rapid extension of light industry than the Government Plan.

Besides capital outlay the Socialist Plan estimated that the other form of capital formation, the replenishment and extension of stocks, would need 6,500 million. Towards the total not investment of 11,600 million, it was hoped that about 2,000 million would be financed by foreign loans, leaving about 9,600 million to be raised at home.

The Government Plan looked forward to a more considerable improvement in the productivity of labour than the Socialist Plan, and therefore did not reckon on so great an increase in numbers employed.

LEGAL POWERS TO ENFORCE THE PLAN

It was by the Act of July 1947 for the Implementation of the Three-year Plan that economic planning as from 1 August of that year was introduced in Hungary. The six clauses of the Act ordered amongst other things: 'Every Hungarian national in Hungary and every foreign national having a working permit in Hungary shall be required by the Government, within the limits of the decrees issued on the basis of the present Act, to carry the Plan into effect'. Clause III authorized the Government to establish a Planning Board and a National Planning Department for the elaboration of the Plan and for controlling the work of carrying it into effect. It may be mentioned that the Planning Board never acquired a leading role. It was but an inter-departmental advisory body.[1] The power of decision was vested in the Supreme Economic Council, and the National Planning Department wielded the executive power. The Government also were empowered to determine by decree the penalties for any breach of the regulations issued in pursuance of the Plan. Jurisdiction over such offences was given to a special court with accelerated procedure.

[1] See Chapter IX.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

power: production was to be doubled, whereas man-power was to increase by only 30 per cent. That presupposed an improvement of fully 50 per cent in productivity per head.

The Plan at its inception did not prescribe any specific measures for improving productivity, but it was assumed that a steadier flow of raw materials, the improvement of equipment, together with further progress in the extension of piece-work, would have the desired effect. When the Plan was half-way through, a drive for further productivity was resorted to, but with indifferent success (see pp. 87–96).

PLANNING INDUSTRIAL PRODUCTION

During the first months of the Plan period the central organ for planning was preoccupied with planning its own organization. According to a decree issued early in September 1947 a representative of the Planning Department was to be installed in each plant (above a certain size), and in each institution or office of importance. The setting up of a network of representatives dragged on for months, and meanwhile a lack of co-ordination in the activities of the different agencies prevailed. However, by the end of the first Plan year the number of Plan controllers attained some 3,000. Their duty was to supervise industrial and agricultural production.

The methods of putting the Plan into force in the nationalized concerns were different from those applied to the privately-owned enterprises. Heavy industry presents an example of the procedure in the former.

As from the end of 1946, iron and steel production, and also about 70 per cent of the heavy machine industry including electrical engineering, were brought under a central management. The new formation under direct Government control united three former private concerns and the previously State-owned Iron and Engineering Works. As soon as the introduction of planned economy had been decided, the management were told to prepare a plan covering their field of activity. It was understood from the outset that this draft plan should secure full utilization of the capital equipment, and in certain sections of production an extension of capacity. Directions as to which parts should receive this extension were at first uncertain. At a later stage of the preparatory work it was determined that the provision of additional capacity for the production of Diesel motors, and for the equipment of power stations and long-distance power lines,[1] should take first place.

[1] The expansion of capacity for electrical engineering was in accordance with the intention to develop a new network of power stations.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

raw-material imports. Moreover, the production of the rubber industry received a stimulus from orders for tyres of standard type to be delivered to the Soviet military authorities. Supplies of home-made leather were larger than had been provided for, while imports were deficient. This shift involved on balance a heavy inroad on the raw-material stocks. Production of knitted wear was curtailed as an unusually mild winter caused a setback in demand. Low fulfilment in flour milling was the consequence of scanty raw-material supplies caused by poor crops.

Cases like that of the knitted-goods industry naturally could be dealt with only in closest co-operation with the authorities. The approval of the Planning Department was needed for changing the production programme. A corresponding redistribution of raw materials followed. Price policy had to be revised in order to hasten the disposal of accumulated stocks. This implied a change of the financial plans of the enterprises concerned, requiring additional credits.[1]

Since individual enterprises were, in their production and investment, tied down to their plans as approved, any change needed previous official consent. Executives were anxious to obtain this consent whenever conditions called for an alteration of their plan. Applications for alterations were dealt with by the National Planning Department in co-operation with the competent Ministry. The fact that the Plan was published by the National Planning Department implied that the latter had the power to carry out modifications according to practical requirements. It was, in fact, a duty of the Planning Department, being the authority responsible for the working of the Plan, to provide for necessary revisions. If these involved additional capital outlay, the consent of the Supreme Economic Council had to be applied for.

Whenever proposals submitted for the alteration of individual plans aimed at widening the scope, they were, as far as possible, favoured. Suggestions for reduction were severely scrutinized, and had to be supported by cogent reasons. In outstanding cases, such as the speeding up of the development of power generating, the initiative lay with the National Planning Department.

The efforts of the Planning Department to co-ordinate economic activities were supported by the Inter-departmental Committee for Credit Allocation. This agency, whose competence covered the whole field of economy in so far as the supply of working capital was concerned, had already evolved certain methods of work and routine during the year preceding the

[1] This being a typical case, referred to in a more general context on p. 28.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

Plan. But its activities gained a firmer footing through the Plan. It was naturally understood that credits would be allocated only within the framework of the Plan. This general rule, however, was not adequate for practical action. Selection was needed even among Plan objectives, for a switch-over of credits from one branch to another according to actual developments often proved necessary. This support was particularly important when at the initial stages the different strata in the Hungarian economy were but loosely connected, the carrying out of the Plan being in many respects sectional rather than comprehensive. The Committee, in executing the credit plan, provided for adjustments which might be necessitated by some unforeseen urgent requirements. Irregular supplies of raw materials might call for shifts in production, or other occurrences might impede an expansion of production on the scale planned. In cases (not very common) where orders received fell short of the quotas, production could be reduced by permission of the planning authorities.

The enterprises had to apply for fuel and raw-material allocations, just as before the Plan, under the system of controlled economy. Exchange regulations as well as price control remained essentially unchanged. The organization of trade was not yet altered; industrial concerns were in a position to sell their products to any firms they chose. The concerns supplying private dealers mostly pertained to the light industry, while heavy industry was engaged in Government orders. The vagueness of the individual plans of light-industry enterprises enabled them to adapt their production to subsequent shifts in demand.[1]

At the same time the executives had to comply with a special control exercised by the National Planning Department. Its representative was present in every public or private concern of importance.[2] The position of these functionaries differed widely. In some cases (especially in State-owned enterprises with executives personally responsible to the authorities) they were mere observers or liaison officers. In other instances they became the real commanders of the enterprise. But, apart from the degree of this personal influence, the managements had to be aware that applications for allocation of raw materials, for credit, or for foreign exchange would be considered only if designed for purposes conforming to the specific plan approved for the enterprise. Besides these practical considerations, there was another strong argument for sticking closely to the approved plan—any departure from it involved a danger of an indictment for economic sabotage.

[1] As pointed out on p. 31.

[2] See also p. 29.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

The plan was drawn up on the following lines:

	Estimates 1947–8			*Results 1947–8*		
	Area sown 1,000 yoke	*Average yield quintal/ yoke*	*Crops in 1,000 quint.*	*Area sown 1,000 yoke*	*Average yield quintal/ yoke*	*Crops* in 1,000 quint.*
Wheat	2,450	7·3	17,885	2,324	6·8	15,800
Rye	950	5·8	5,510	1,005	7·2	7,240
Barley	850	6·9	5,796	784	9·0	7,060
Oats	340	6·4	2,176	409	8·5	3,480
Maize	2,100	10·6	22,366	2,263	13·1	29,600
Potatoes	525	38·0	19,950	490	47·5	23,300
Sugar-beet	125	85·0	10,625	185	86·0	15,900

* Provisional data, no corrected figures were later given.

In determining the area to be sown with each product, the natural conditions of agriculture in Hungary had to be taken into account. Even within these limits modification of the pre-war sowing scheme was possible, and was, in fact, carried through in response to urgent needs (in particular by extending the area for oil seeds). The sowing plan for 1947–8 had to be revised, because in the autumn of 1947 the preparation of the soil was hampered by abnormal weather conditions. The gaps left by reduced autumnal sowing of bread-grains were mostly filled by planting maize in the following spring, as summer wheat and rye do not thrive in Hungary. But, apart from occurrences of this kind, the sowing plan was carried out. The mechanism of control proved fairly efficient.

The breakdown of agricultural output according to counties (numbering twenty-five) was drawn up by the Ministry of Agriculture. This plan, with its subdivisions, was based on previous experience. The starting point for determining the area for each crop was the average pre-war figure. This was cautiously modified with a view to changes in agricultural policy (change-over from grain-growing to more diversified production) and to immediate needs.

It was the task of the county committees, assisted by local government agricultural departments and representatives of the Planning Department, to elaborate, within the limits set for each county, sowing plans according to districts and localities. The responsibility for determining the part of the individual farmer rested with the local or village committees. These were destined at the same time to supervise the activities of the farmers in their successive stages. The omnipresent Communist Party, together with the organization of the 'National Union of Working Peasants', was called in to assist the village committees in fulfilling their task of control. These local committees supported the representatives of the Planning Department, who

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

resided in every administrative district—about 200 by the end of the first Plan year.

The change in the position of the farmers can be fully appreciated only when the political atmosphere in the rural districts is realized. The edict of November 1947, in protection of the Three-year Plan against criminal offences, could naturally be applied equally to agriculture. In case of delay in some part of his work, or of any infringement of delivery orders, the farmer might be threatened with prosecution for economic sabotage. This possibility often became a reality as soon as the campaign which aimed at splitting the peasant population had been started. The November edict then proved to be a very effective weapon in fighting the *kulaks*, i.e. the wealthy peasants with a property exceeding 25 yokes. Holdings over that size were supposed to need hired labour, qualifying the owner as a class enemy. The farmers with a smaller property than 25 yokes were acknowledged as allies of the working class, not exploiting labour but themselves running their farms assisted only by members of their families.

THE UN-PLANNED SECTION

Small-scale Industries

The control exercised by the Planning Department did not extend to unincorporated concerns employing fewer than twenty workers. The share of the small units below this limit in the total output of manufactured goods was near 25 per cent. These units were not obliged to submit production plans. Investments carried out by them required approval only when exceeding the amount of 200,000 forint (£4,000). Consequently an appreciable part of industrial production and some part of total investment (in small-scale industry, agriculture, and trade) remained 'un-planned'.

Of raw-material supplies it was decided that certain quotas should be allotted to small-scale industry. These quotas were as a rule not adequate, allowing only a limited scope for the activities of handicrafts. Small manufacturers and handicraftsmen practically carried on their business under a controlled but not a planned economy. Yet controls were not efficient enough to regulate the activities closely. This applied in the first place to the prices they charged. The profits they earned, therefore, were often far above the officially approved rates. Consequently they were able to pay wages and raw-material prices in excess of the prescribed limits. Such evasions of the price control on raw materials were not extensive. The black market, though

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

There was another incentive, perhaps more powerful than these, for speeding up the Plan. The grip of the Government on the economy of the country and on labour became firmer after the events of the spring of 1948. In a short time the trade unions were transformed into Government agencies for furthering production. And meanwhile the political position of the workers had suffered a change, as the disappearance of the Social-Democratic Party and the reduction of the other coalition parties to mere shams virtually meant the adoption of a one-party system. These changes in the political sphere gave rise to the hope that devices, more effective than those previously relied on, could be employed to force up the productivity of labour.

In the economic field the direct control acquired over manufacturing industry provided rigid adherents of universal nationalization with an opportunity for planning a higher scale of achievement. They thought it necessary to demonstrate the superiority of nationalized industry over private enterprise, and here was their chance. In an important sector of the economy the necessity of a twofold administration of the Plan practically ceased. Instead of conducting discussions with the executives of private enterprises, direct orders could be given, through the hastily-organized industrial directorates, to factory managers appointed on the authority of the very same agencies. No doubts were allowed to be voiced as to the efficiency of a rigid centralization, it being dogmatically maintained that this move towards Socialism was bound to secure higher yields.

Under the Act on Nationalization, passed in May 1948, directorates for each branch of industry (numbering twenty-nine) were established. At first they exercised the supreme administrative authority, and were also the central operative agency of the industry concerned. After a tentative period these functions were divided. The Industrial Directorates retained the [illegible] of the respective competent Ministries. On the other hand operative centres for the management of mining and industry were organized, one or more for each industrial branch, according to its importance or the dispersion of its plants over the country. The agencies co-operating at the top level were now the National Planning Department,[1] the Industrial Directorates, and a Section for Public Enterprises newly set up in the Ministry of Finance, the latter of course being principally concerned with the financial plans. It was the task of the directorates to mould the plans submitted by the enterprises of the industrial branch

[1] With the Raw Materials Board as one of its sections.

[Reduction of reparations and increase in defense expenditure.--Analyst]

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

controlled by them into a unit; they had to watch the fulfilment of the approved plans, and were to make provision, with the consent of the National Planning Department, for whatever changes proved necessary in any of the individual plans or in the sectional plan of the branch.

Moved by the considerations referred to, the planners decided that the capital programme projected for the period August 1947 to July 1950 should be carried out by the end of 1949. Accordingly, production was to be speeded up so as to attain the level originally planned for the end of a three years' period within twenty-nine months. The decision required a new subdivision of the 'Three-year' Plan in place of the three twelve-month periods. It was found convenient to abridge the second part into the five-month terms of August-December 1948, while the third was to run, like the first, for twelve months, from January to December 1949.

INDUSTRIAL OUTPUT AND EMPLOYMENT

It was intended that industrial production should be raised in the closing Plan period to double that of 1946–7. In the first year a 50 per cent increase was achieved. During this first phase of expanding production the enterprises were to draw on their 'in-door' reserves of man-power. Their capital investments were concentrated on the elimination of bottlenecks, so that disproportionate increases of production were made possible. In the following period no special factors of that kind operated. Additional labour was to be employed, roughly in proportion to the stepping up of production. Opportunities for setting whole workshops in motion by replacing some damaged parts at small cost were exhausted. The mainstays of further development, the increase of the labour force and massive investment, were bound to be coupled with more searching methods of organization and factory management if the objectives of the Plan, including the rise in productivity, were to be realized.

The progress of industrial production is indicated by the index numbers computed by the National Planning Department.

INDUSTRIAL OUTPUT (PER CENT)

	1938	1946–7	1947–8	1948 Aug.-Dec.	1949
Actual	100	60	92	100	135
Planned	—	—	88	—	127

After the 50 per cent rise during the first Plan year industrial production appears to have been raised again by nearly 50 per cent within a seventeen-month period. In the cases of mining

[See cat 116, pp 61-63--Analyst]

3:Kemeny G-5 (1945-48)1957 EC1 Hungary EC1

ordination of the work of the authorities. The executives were, in particular, supposed to collect adequate information on the prospects of raw-material supplies when submitting applications for credit. This information was mostly derived from official sources: the Raw Materials Board, or the Ministry for Foreign Trade; yet in a number of cases it was supplemented by anticipations based on special knowledge of sources of supply.

With a view to the control of the manufacturing process, the Planning Department attempted at first to keep account of every detail, right down to the output of individual products within the different concerns. Later, in view of the rapid expansion of production, it was recognized that control could not work in such detail. After some hesitation the National Planning Department confined itself to watching the flow of production of each individual concern as a whole, with little regard to whether some of their workshops were ahead of their schedule and others lagged behind it. The overall figure of current production of a concern was estimated on the basis of the number of workers engaged in the different sections of production. The relation of the wage costs to the value of products was worked out for the various sections of the manufacturing process within the concerns. The Planning Department exploited these calculations in order to control on broad lines the rate of expansion in industrial production.

The local representatives of the Planning Department were in a position to exert current control, provided they had sufficient expert knowledge. The heavy penalties inflicted for any offence against the Plan generally sufficed to prevent any shortcoming on the part of the executives. They were, in fact, anxious to secure approval in advance for any change in programme. This practice contributed to the tightening of control, imparting at the same time a bureaucratic character to the whole system.

AGRICULTURE

The individual farmer's production was directed by local agricultural committees established through the agency of the National Union of Working Peasants.[1] The counties and districts, with their respective departments and committees, operated as intermediate organs behind those local bodies. Central direction emanated from the Ministry of Agriculture, which was responsible jointly with the National Planning Department for this part of the Plan. The local boards deter-

[1] See above, p. 39.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

mined the production plan of the individual farmer, and exerted permanent control over his activities. The growing of certain products was brought into more direct relation with the general production Plan by being placed under the centralized control of special agencies. Contracts were concluded between the individual farmers and these central agencies. This system, which was called production 'under contract', ensured the farmers guaranteed prices and specially favourable conditions for production. The contracting farmers were to receive quality seed, fertilizers, and credit facilities. On the other hand the obligation was imposed on them to adopt improved methods of cultivation as worked out by Government experts. The grower was, as a rule, under the obligation to deliver the whole produce of the contractual area, which was kept under control by a staff of supervisors. Another variety of these contracts, less frequently applied, stipulated the delivery of the produce only up to specified limits. The grower then was entitled to dispose freely of the part of his crop exceeding the determined maximum. The maximum, however, was usually based on yields considerably above the average crops in the produce concerned. On a more limited scale this special form of control of production had been applied in the inter-war period and during the war. In 1948 about 10 per cent of the arable land was cultivated under contract, so as to produce improved qualities of seed-grain, oil seeds, or tobacco.

Planning in agriculture was not confined to determining the proportion of the areas to be devoted to the different branches of cultivation. Besides the production plan there were other plans, i.e. time-tables set up centrally for ploughing, sowing, and harrowing. The existence of these plans implied, on the part of the local committees, a permanent control of the work to be done by the individual farmer. He was required to report and to make application for assistance, for example by borrowing implements or tractors, whenever it was wanted to carry out the work prescribed. Any omission or delay might incur a charge of sabotage. It was the duty of the local and district branches of the National Union of Working Peasants, in co-operation with the authorities, to provide what was necessary. This could be done through arrangements with one of the State-owned tractor stations (which, besides tractors, disposed of threshing machines and other equipment). An alternative was to hire from farmers who had draught animals or agricultural machinery to spare. These farmers were obliged to lend at officially-fixed rates of compensation.

The final test for the farmer was the compulsory delivery of

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

241 656

grain, oil seeds, fat, and pigs. Smaller holdings had to surrender fat. The owners of holdings over a certain size were obliged to fatten pigs for delivery, up to a prescribed minimum weight.

It was a common feature of the measures taken in order to control agricultural production that they were applied, in particular in the latest stages, with a severity not justified by purely economic considerations. For political reasons it was intended to go beyond economic necessity, so as to provide a weapon in the campaign by which the wealthier part of the peasantry was to be annihilated.

AGENCIES FOR CO-ORDINATION

647 471

The National Planning Department, as the centre of the whole economic system, was endowed from the outset with wide powers. The Department started with a small personnel, on the assumption that it could make use of assistance from other Departments for special tasks. Battling at the beginning with difficulties within its own organization, the supreme planning authority had to divide its attention between the current work of control and adjustment and what may be called the strategic line of planning.

As an inevitable consequence of the hasty manner in which the obligations of producers under the Plan had been drawn up, applications for the approval of alterations poured in at the time when the checking and co-ordinating of the individual plans submitted were going on.[1] Alterations approved for one concern were often bound to involve changes in dependent industries. This was recognized, yet a workable co-operation between the Planning Department and the Ministries of Industry, of Transport, and of Public Works, in order to master the problem, was but gradually evolved. Until better co-operation was achieved, many disturbances had to be overcome, amounting even to a stoppage of plants caused by delays in decision. In a number of cases the executives preferred to interrupt production rather than take personal responsibility in the absence of new directives.

The National Planning Department considered the drawing up of investment projects beyond those published in the Plan to be one of its paramount tasks. This was in accordance with the policy of speeding up the production of capital goods. The schemes were prepared, use being made of capital programmes worked out before the introduction of planned economy. The schemes were kept in reserve, in order to be launched as soon as

[1] See Chapter IV.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

their realization appeared feasible. Priority was given to the development of electric-power production (based on deposits of lignite), as this was considered the most restrictive bottleneck in industry.

The individual quotas, covering half a year and divided up by months, became operative in so far as estimates of raw material supply were correct. These latter were a specially vulnerable point of the production forecast. In the intial stages checking of individual estimates were, except for a few key industries, incomplete. Co-operation between the planning authorities and the Raw Materials Board was loose; a deficiency caused partly by political and departmental rivalries, the Planning Department having been Communist, the Raw Materials Board, as a section of the Ministry of Industry, under Social-Democratic control during the first phase of the Plan. To eliminate this impediment, the Raw Materials Board was later merged with the National Planning Department which, at the same time, took charge of price control.

The establishment of the Investment Bank in September 1948 was another step to complete the organization of the central planning authority. The Bank was operated as the financial section of the Planning Department.

The Planning Board, established in accordance with the fundamental Act on the Three-year Plan, worked as an inter-departmental co-ordinating body. The major part of the members of this Board acted as liaison officers between the Ministries concerned with economic affairs and the National Planning Department. Regular meetings of the Board kept the Government Departments currently informed of the designs of the central planning authority, thus enabling the Departments to influence decisions at a preparatory stage.

The Planning Department played an important role in shaping credit policy. It drew heavily on the resources of the budget and was a most important claimant of National Bank credit, as a further source for financing the capital programme. Moreover, the Planning Department was closely concerned with the allotment of credit to provide the different industries with working capital, since the execution of the Plan was dependent on it. The Department participated through its representative at the Inter-departmental Committee for Credit Allocation in preparing the monthly financial and credit plans, and was also represented in the Supreme Economic Council, which gave the financial plan its ultimate shape.

It was only in June 1949, during the closing period of the Three-year Plan, that the organization at the top was altered

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

647 with a view to a smoother co-operation. The Supreme Economic Council was then superseded by a People's Economic Council, with the National Planning Department, the Central Statistical Office, the Central Control Office[1] and the Office for Man-Power Economy under its direct control. The President of the Council is the member of the Cabinet responsible for economic planning. He is a super-Minister, for under his command are the Ministries for Finance, Agriculture and Food, Heavy Industry, Light Industry, Public Works, Home Trade, and Foreign Trade, i.e. all Government Departments concerned with economic affairs. As previously, the chief executive for planning was the President of the Planning Department, a member of the People's Economic Council with Cabinet rank.

ADMINISTRATION OF CREDIT

652 452 [647] A national credit plan was to be drawn up monthly, based on the financial plans of the enterprises, which had to be submitted in support of credit applications. The individual proposals were first screened by a preparatory committee consisting of the Ministry of Finance, the Planning Department, and the National Bank. The draft plan prepared was then discussed and possibly modified in the Inter-departmental Committee for Credit Allocation (p. 36), and brought subsequently before the Supreme Economic Council for final decision. There the credit plan was considered in connexion with the monthly budget estimate. The amount of money issued during the month was decided on with reference to the balance of the budget, the excess of credits to be granted over repayments, and the estimated increase of deposits (taking into account the sales and deliveries of foreign exchange as a minor factor). The Supreme Economic Council, anxious to avert inflation, fixed a ceiling for the issue of bank notes from month to month. It was understood, in principle, that a gradual expansion in accordance with the growth of production should be permitted. But the Plan dictated a quicker pace. The members of the Council, when confronted with the problem of reconciling conflicting economic and financial considerations, had to choose between reducing budget expenditure and curtailing credits. Among considerable items of budget expenditure investment was the most elastic. At times the Planning Department made concessions by postponing one or another of the projected works or parts of them. But the Council generally refrained from resisting the expan-

[1] An organization created on the Soviet pattern with the task of supervising the finances of public administration and of public enterprises.

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471 sales were arranged with the knowledge and, in some instances, with the support of the public authorities, though the initiative, as a rule, came from the industry concerned. The expedient most frequently applied, however, was the postponement of less urgent commitments. The criterion of urgency was whether a postponement of payment would or would not stop production. Tax payments were suspended, as were disbursements to suppliers of raw materials, who were not in a position to threaten to interrupt deliveries immediately needed. These practices indicate the intensity of pressure brought to bear on production. Postponement of meeting obligations, while helping individual concerns to overcome momentary embarrassment, was bound to affect the financial system at other points. Tax revenue would fall into arrears, or repayments of advances by some of the suppliers concerned would be postponed. To a certain extent the method of fixing a ceiling for the note issue may have retarded monetary expansion, but it could not stop it.

453 652 [647] Inside the credit administration there was a fundamental change in the position of the National Bank. The shaping of credit policy in the Committee for Credit Allocation rested with the representatives of the Supreme Economic Council's Secretariat, the Ministry of Finance, and the Planning Department. The members of the different Government Departments (Industry, Agriculture, Public Works) represented sectional interests. The National Bank with its delegate in the Committee provided at the same time the Secretariat of the latter. This secured the Bank an important position within the Committee though chiefly in a technical sense. For amounts not exceeding 10,000 forint (£200) the Committee delegated to the Bank its power of deciding upon the allocation of credit. The Committee itself was authorized to decide on individual loans up to 1 million forint. Above this limit decisions were reserved to the Supreme Economic Council.

The National Bank was not obliged to grant loans approved by the Committee. The Bank was expected to act with the circumspection of an ordinary banker in examining the solvency of the debtor and other circumstances which might influence the security of the credit. On such grounds the Bank had discretion to refuse credits which had been approved. The practical importance of this remnant of a credit policy of its own declined, however, with the spread of public concerns with Government-guaranteed liabilities.

(d) the fostering of agricultural production and the improving of marketing organization;

(e) improving technical instruction in agriculture;

(f) resettlement of some of the landless agricultural population;

(g) improving rural housing, health, and social services.

No detailed and comprehensive plan was drawn up and no special machinery was created to coordinate and control the plans prepared by individual government departments and agencies which usually meant the extension of their routine activities and the speeding up of the execution of projects already undertaken. It was not until 1940 that the Minister of Finance became officially the coordinator of the government's economic policy and that a Supreme Economic Council was set up, an advisory body, including, besides the heads of government departments and agencies, the under-secretaries, the assistant secretaries and the leaders of special interest groups.

The lack of a detailed plan makes it difficult to evaluate the measure of achievement and success. The exigencies created by the territorial changes of 1939-1941 and the war distorted even the faint outlines of an overall plan that could at first be discerned. This, however, is not to say that the effects of the investment program could not be felt, especially as it assumed much greater proportions than was originally intended.

Due partly to the 84 percent increase in territory and the 58 percent increase in population, partly to the pressure of war time needs, and partly to rising prices, the scope of the investment program was repeatedly extended. In two and a half years, 1.65 billion pengoes were spent and a revision of the program brought the total to be invested first to 2.6 billion pengoes, and by another revision at the end of 1943, to 4.5 billion pengoes. The capital levy which was to cover 600 million out of the original 1 billion pengoes and was to be levied in five years was all collected by the end of 1940 and new taxes and loans had to be resorted to in order to provide the additional funds required. In spite of the liquidity created by an inflationary boom, in an increasing measure the Bank of Issue became responsible for financing the scheme.

The effects of government spending were felt first of all in heavy industry. A number of plants were built which considerably increased industrial capacity. Still more would have been accomplished had the war, which reached Hungarian territory in 1944, not stopped construction work and had it not brought

marked increase in prices since 1938. Reduced to the prewar territory and in 1938 pengoes, annual investments would have been of the order of 30-40 million pengoes, giving a total of 300-400 million pengoes.

The act did not provide special machinery to carry out the plan. An overhaul and reorganization of the agricultural administration was proposed, a measure which in any case was overdue, but the act did not go into details. One innovation, specifically mentioned, was the appointment of agricultural officers to all the larger villages and to groups of smaller ones to control the execution of decrees of an agricultural-technical character and to give advice on agricultural matters to the local councils and the farmers. Hitherto the organization of the agricultural administration was curiously deficient, as it had officers only in larger territorial units which were too large for efficient control.

The other innovation was the setting up of the National Council of Agriculture, an advisory body, appointed by the Minister of Agriculture. Otherwise, the role of the Chamber of Agriculture did not change and the special interest groups of farmers were to continue to exercise their functions.

The powers of the minister were greatly increased. The minister could compel producers of special lines to set up organizations to represent their interests. To regulate supply and improve distribution, the minister was also authorized to set up organizations combining producers, processers and distributors to regulate production and prices with binding force for all concerned; he was also authorized to give monopolistic rights to cooperative societies or state organizations for the purchase, distribution and export of specified agricultural products.

Increases in production were to be brought about by investments, by temporary tax rebates to farmers making permanent improvements, and by greatly increasing the power of the Minister of Agriculture to compel farmers to adopt more efficient methods.

Investments included increasing the number and improving

Transylvania was reincorporated—43,500 sq. km., population 2.6 million.

April 1941, the occupation of part of Voivodina added 11,500 sq. km., population 1.0 million.

In 1941, Hungary had a territory of 172,200 sq. km., with a population of 14.7 million, against 93,100 sq. km. and 9.3 million in the Trianon territory.

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

185 was at once a reconstruction, production, and investment program, with emphasis on the first, those investments that would have an immediate effect on production and would eliminate bottlenecks being given priority.

●[647] A National Planning Office was set up to detail the plan, which had been approved only in outline by the party [652] leadership. The Investment Bank and the Bank of Issue were in charge of financing operations. All activities were supervised by the Supreme Economic Council and by the Cabinet.

652 454 Of the investment of 6.6 billion forints called for by the plan (1 forint was equal to 8.52 United States cents at the official rate), agriculture was to receive 2.0; mining and manufacturing, 1.7; transport, 1.7; and building, 1.2 billion forints. Included under "agriculture" were such items as tractor and fertilizer plants, road building, rural electrification, irrigation projects, and the establishment of tractor stations. Sixty-seven percent of the total was to be met from treasury funds (taxes and loans), 18 percent by local authorities and government agencies, and the balance by cooperatives (4 percent), remaining private sources (9 percent), and Soviet-Hungarian companies (2 percent).

185 After a very promising start the plan was speeded up and it was concluded by 1 January 1950 instead of 1 August of the same year.

185 315 433 Oil was among the few basic commodities that fell considerably short of the goals. The plan called for production of 540,000 tons in 1947/48 and for 660,000 tons in 1949/50 which was later moved up to 1949 under the speed-up program. In contrast with these high expectations the actual output was only 475,000 tons (3,600,000 barrels) in 1948 and a little below 500,000 tons (3,800,000 barrels) in 1949. Thus, only 75 percent of the plan was fulfilled in oil production, and the 1949 output remained at but 59 percent of the wartime peak of 1943.

000 While mechanization in agriculture progressed, 211

1 [sic -- Analyst]

APPENDIX

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to the opinion that the plan can not be fulfilled."

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That this attitude prevailed for so long in the oil industry was largely the responsibility of the Petroleum Production Section of the Ministry of Mining and Energy. The section did not look far enough ahead. Instead of massing its forces on the decisive problems of industry's development, it was snowed under by small day-by-day problems. It did not fight with great force against the damaging doubts of the disbelievers. Little was done by the section to improve the coordination of different aspects of the industry. Mistakes occurred in the introduction of the more competitive wage scale, and insufficient attention was paid to the strengthening of work discipline.

Great advances are possible for our oil industry. The leaders of this branch of industry as well as its workers will have to fight with the spirit of the last months of 1951 for the complete elimination of falling behind the goals and for the successful fulfillment of the plan, and its overfulfillment.

This year they will have to complete 66 percent more exploration and exploitation than last year. Production will increase considerably: 14 percent more crude oil, 13 percent more casing-head gasoline, and 38.5 percent more propane-butane will have to be produced.

What tasks will have to be undertaken by the petroleum industry in the service of the great goal? First of all, up-to-date methods of production will have to be introduced on a larger scale than that achieved in the past. As an example, the technique of "sweeping oil with water" can be mentioned. (Water is pumped under the oil layer to drive the oil to the surface.) The preventive maintenance of the wells will have to be better organized. Great tasks are also awaiting the oil explorers. Instead of the often self-centered, purely theoretical geological explorations of the past, geological knowledge will have to be increasingly applied in a practical manner. The tasks demand that the Hungarian industry deliver more up-to-date drilling and well-maintaining installations, more deep-pumps, and more compressors to the oil industry.

1 A [sic -- Analyst]

II. GENERAL SOCIAL POLICY.

Problems of the Civil Service.

The most pressing problem to be met during the critical situation brought about by the Treaty of Trianon was that dealing with the distressing plight of the educated classes. Countless obstacles hindered the employment of educated youths. Since the country had to be reorganized after the first world war and the ensuing communist revolution, the problems of the civil servants occupied a prominent position and had to be dealt with regardless of the almost insurmountable difficulties.

Since 1918 the salaries of the civil servants have been raised several times when compatible with the national budget. Social considerations played a prominent part in this respect in so far as the ratio of increases in the lower brackets was higher than in the upper ones. Again, when conditions necessitated salary cuts, those in the lower brackets were given similar proportionate consideration. It is worthy of note that the interests of family protection were always given foremost consideration, and the adjustment of family allowances was always on a progressive basis.

This policy has the following result; while a civil servant in the fifth grade receives not quite 70% of his 1918 salary, those in the eleventh grade receive 110%, and some messengers 140%. The family allowance of a civil servant in the eleventh grade was 10% of his salary for his wife and each child. Now he receives allowances on the following scale: 30% of his salary for his wife, 30% for his first child, 30% for his second, 35% for his third, 42% for his fourth, and 50% for his fifth child.

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Until 1921 no provision was made for sick benefit for civil servants. The Government, by Act XLVI of 1921, established the National Civil Servants Sick-benefit Foundation (Országos Tisztviselői Betegsegélyző Alap) which provides financial assistance for medical treatment to the civil servants, pensioners and their families. The Foundation was reorganized and extended by the Government in 1934. To-day the members of the Foundation are organized in 2000 districts and they receive medical attention at their homes in 3400 places. In the current year the various benefits will be greatly increased.

Pensions.

As regards pensions given to civil servants, great social progress was made in Hungary during the past two decades. Out of the funds of contributory pensions health resorts were opened at Hévízfürdő, Balatonföldvár, Galyatető and Balatonalmádi. In the near future this fund will finance the building of the most modern hospital in Hungary, the Horthy Miklós Sanatorium in Budapest.

The scope of the Pensions Act showed a very progressive spirit even in pre-war days. Since the war the pensions act was enlarged to the extent of providing rent allowances to the widows of pensioners. Similarly, the act was extended to include childrens' allowances to the pensioners. The benefits are graduated according to the number of children. A further advance was made in 1927. Since that year, civil servants who are bound to the state only by contract are provided for in their old age, or if they are disabled.

Pensions of war veterans and war widows.

647 729 Special cases resulting from the war are taken into consideration by the social policy. Those civil servants who became disabled while on active service during the war receive pensions regardless of the length of time spent in the service. The widows of civil servants who died while serving in the army receive pensions. During the first world war there were no such regulations in force.

Hungarian and Roumanian pension systems.

000 For the sake of comparison we may mention that the Roumanian state, in 1940, gave a very small pension to those who had been retired a long time ago. When the Transylvanian territory was reunited with Hungary, the pension system was reorganized according to the Hungarian laws. Some instances showed that the former Roumanian pensions were almost 200% lower. Furthermore, the Roumanian pension law did not give pensioners allowances for children. Thus the establishment of the Hungarian pension system was a very welcome change, especially to those with children.

Student welfare.

657 874 The second most acute problem created by the post-war crises was the plight of the educated young Hungarians. In the beginning, when aid could only be given intermittently and within narrow limits, the Government spent as much as possible on the support of university students by direct aid. At the time of the world-wide depression this problem became acute. It became possible by then to aid student welfare by collective measures. The impor-

Wage allowances to dependents.

The employer must pay the enlisted men in the ranks or their dependents 50% of their monthly salary during their period of military training and this amount is increased by 10% for each child. The rent of their living quarters if supplied by the employer cannot be deducted from the above amount.

Industrial and agricultural labourers.

The industrial connections of the enlisted men cannot be severed while they are doing military service, and the same applies to agricultural labourers, and if they have dependents their employer must continue to furnish the dependents with the services in kind contracted for (rent-free homes, fuel, garden space, keeping a certain number of domestic animals, etc.).

Since 1938 laws ensure that the jobs of farm overseers be held for them and their dependents be provided for by the employer while the overseers serve with the army. Since 1942 the needy dependents of enlisted men get separation allowances. They also enjoy certain privileges in rationing.

Civil servants.

A number of legal measures protect the interests of enlisted civil servants. The essence of these measures is that no distinction should be made between enlisted and exempted civil servants to the detriment of the former in the matter of promotion, placement in rank, etc.

Disabled soldiers, war widows.

One of the provisions of the National Defence Act orders that disabled soldiers and war widows should be